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Today show

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Former Enron CEO's family speaks out

Wife Linda Lay, and three of their five children break their silence to rebut what they say are terrible misconceptions about him

THE TODAY SHOW

Jan. 29 — Ken Lay is the man in the eye of the Enron storm. He's been under fire daily by the press and vilified by former employees. On the advice of his lawyers, he's not talking publicly yet, but Linda - the former chairman and CEO's wife of 20 years - says she has had enough. In an exclusive interview with NBC's Lisa Myers, Lay defends her husband and says her family is struggling to avoid bankruptcy. "Everything we had mostly was in Enron stock," Lay says on NBC's "Today." "We've had long-term investments and those long-term investments have cash calls. Virtually - other than the home we live in - everything we own is for sale." Read the full transcript of Lisa Myers' interview with Linda Lay and three of the Lay children below.

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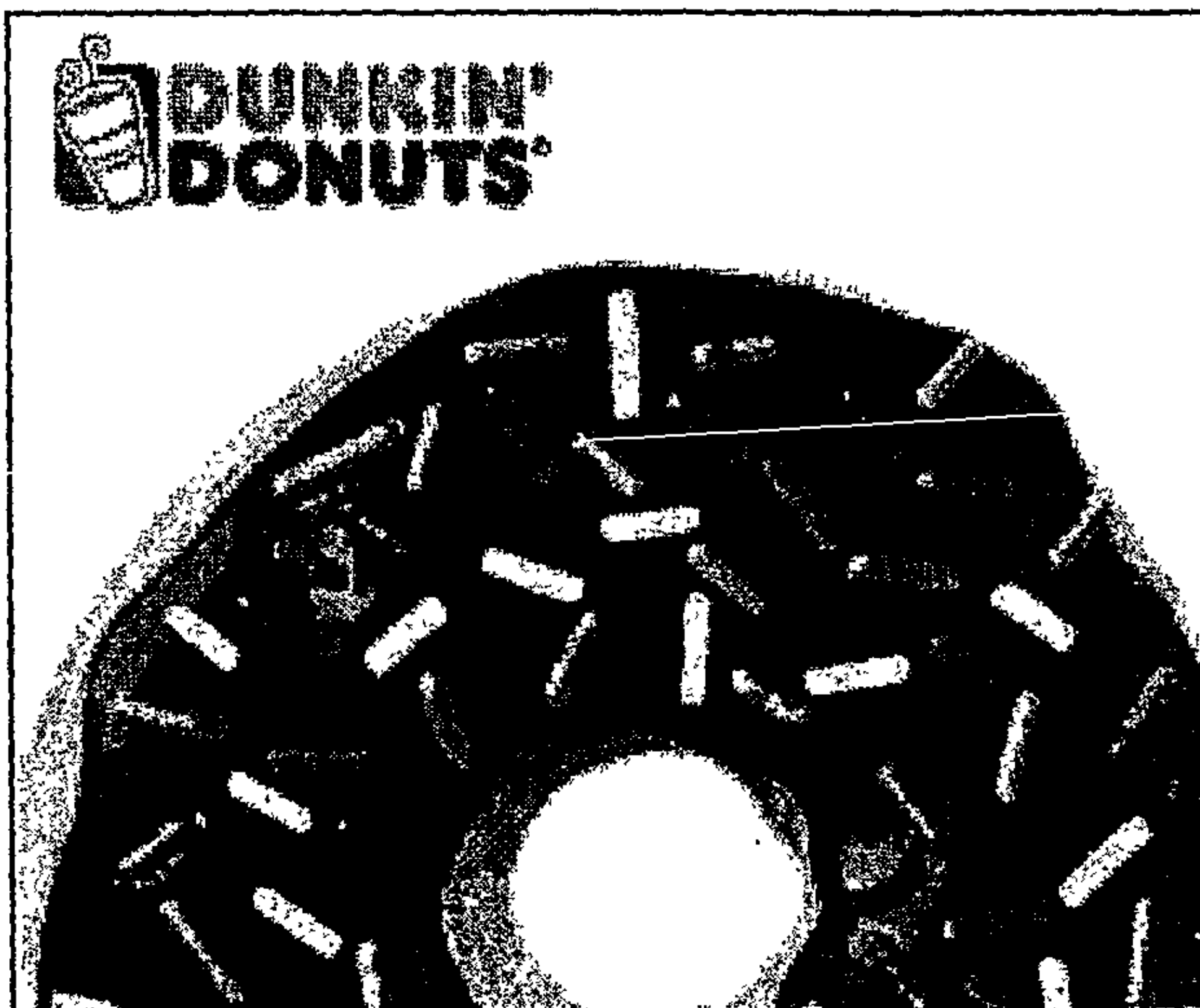
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"The most difficult part of it is that there are so many people whose lives are ruined and are getting ruined. And it's just growing as each day goes by."
— LINDA LAY

Linda Lay: "This is a mass hysteria of who can get the news first on, when, how, why. Suspicion and they're lumping everybody together. Nobody even really knows what the truth is yet. The only truth I know, 100 percent for sure, is that my husband is an honest, decent, moral human being who would do absolutely nothing wrong. That I know 100 percent."

Lisa Myers: "Does it seem unfair to you that your husband has become the focal point of all the anger that's out there?"

Linda Lay: "No, I don't think it seems unfair, because he's chairman, C.E.O.. The buck stops at his desk."

Lisa Myers: "So you can understand all the anger..."

Lay: "Absolutely."

Myers: "...and the sorrow..."

Lay: "Absolutely."

Myers: "...and the loss?"

Lay: "Sure."

Absolutely. He is at the top. That's where it ought to be. If I were back there listening to all of the things that were being said, I would absolutely have to say that, 'What is wrong here? How can all of this be happening without something, someone doing something terribly evil?'"

Myers: "I don't think most people could imagine what it would be like to be in the

The Enron Fiasco**A company's rise and fall**

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center of this vortex."

Lay: "The most difficult part of it, Lisa, is that there are so many people whose lives are ruined and are getting ruined. And it's just growing as each day goes by. But there isn't any one person that's ever dealt with Enron that isn't drastically affected by it. And its effects are so damaging."

Myers: "There was a tragedy in the Enron family on Friday. The former vice chairman, Cliff Baxter, committed suicide. That must have been a terrible blow."

Lay: "Horrible."

Myers: "Did you have any idea he had been in that much pain or difficulty?"

Lay: "No, I didn't. My husband had spoken to him not long ago. And Cliff is a, was a wonderful man. It's a perfect example of how the media can play such havoc and destruction in people's lives and this is the ultimate. This is a loss of life. This is something he can't get back."

Myers: "Can you see how someone would be driven to that?"

Lay: "The intensity of it all. I can't possibly imagine how each and every employee is dealing with all of that."


Lay: "And now, to be ashamed that you work there. To be ashamed of any involvement you might have had with Enron. That your neighbors may look at you as suspect? Of maybe being part of this horrible, evil, sinister act that's going on there. And it's tragic that Cliff, somehow, couldn't handle that. It makes my heart ache, it makes Ken's heart ache. Had we known, we would have picked up the phone and called. We would have gone and been with him. We would have done anything we could to have helped him, to help his family. But we had no idea that he was in that kind of pain."

Married 20 years, Ken and Linda Lay have five children, and six grandchildren. This was the year they had planned to retire. Now, despite making hundreds of millions of dollars, they're working around the clock to avoid personal bankruptcy.

Lay: "We're fighting for liquidity. We don't want to go bankrupt. And we've had long-term investments and those long-term investments have cash calls. Other than the home we live in, everything we own is for sale."

Myers: "According to published reports, your husband earned about \$300 million in compensation and stock from Enron over the last four years. What happened to all that money?"



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"By anyone's standards, it was a massive amount of money and it's gone. It's gone. There's nothing left. Everything we had mostly was in Enron stock. I mean, it was him. Ken built the company. We believed in it. It was a good stock."

— LINDA LAY

Lay: "By anyone's standards, it was a massive amount of money and it's gone. It's gone. There's nothing left. Everything we had mostly was in Enron stock. I mean, it was him. Ken built the company. We believed in it. It was a good stock."

Myers: "So you were not very diversified?"

Lay: "Not really. Not really at all."

Myers: "So even your family's 401(k) was in Enron stock?"

Lay: "Absolutely. We had 19 choices of where to put our money in our 401(k), just like all the other employees..."

Myers: "Of Enron?"

Linda Lay: "...of Enron. Why wouldn't I put it in Enron? Why wouldn't I? My husband was Enron. He believed in it. He was running Enron."

Ken Lay's wife and their five children are breaking their silence to rebut what they say are terrible misconceptions about him.

Ken Lay's daughter: "His generosity, to be honest, is beyond anything I've ever experienced or have seen in anyone."

Ken Lay's son: "He's probably the most generous, ethical giving man that I've ever met."

Ken Lay's daughter: "Obviously, if he knew that something was going on with the company, he would've cashed, you know, all of his stocks."

Linda Lay: "He spent his entire life making absolutely certain that there was never, ever a point in his life that anyone could say he didn't have integrity."

Yet today, 10 congressional committees and a criminal investigation by the Justice Department are doing just that — asking just what he knew and when.

Lisa Myers: "You says he's a straight shooter, yet there are experts who say that some of the things that went on at Enron were not kosher."

Lay: "He can't be everywhere Lisa. He has to run a big company. He can't do everyone's job for them."

Myers: "If he's a visionary leader, people might ask how could he not have known all that was going on in his own company."

Lay: "There are some things that he wasn't told Lisa. There are some things that the board of directors weren't, didn't know. But that will all come out in the investigation. Those things will all come to light. That's

what we're all praying for is that they'll get the truth and they'll bring it all out."

What about Sherron Watkins, the Enron whistleblower who warned Ken Lay last August that the company was about to "implode in a wave of

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accounting scandals"?
Linda Lay actually

praises her.

Lay: "Frankly had I been an employee there and I had seen what she had seen, I would have done exactly the same thing."

But why didn't her husband do more about that warning?

Lay: "He had their outside counsel come in and the accounting firm look at it. And they came back and told him it was fine."

TIMELINE

The rise and fall of Enron

1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9

Feb. 1, 2002

The Justice Department orders the White House and other federal departments to preserve all documents relating to conversations with Enron executives about the firm's financial condition.

Jan. 29, 2002

Enron names restructuring specialist Stephen Cooper as interim chief executive officer.

Jan. 28, 2002

Hundreds of current and former Enron employees file a class action lawsuit seeking damages for losses they suffered by investing in the company's 401(k) plan.

Jan. 25, 2002

Former Enron Vice Chairman J. Clifford Baxter is found dead in his car in a Houston suburb. Texas police say the cause of death is suicide.

Jan. 24, 2002

A fired Arthur Andersen auditor refuses to testify before a House panel about the shredding of Enron documents. Arthur Levitt, former SEC chairman, tells a Senate panel that the financial alchemy that turned Enron from Wall Street darling to disaster exists in many other companies.

[Printable version](#)

Myers: "In retrospect, does he think those people let him down?"

Lay: "Absolutely, absolutely. Never, never, not for one second would he have allowed anything to go on that was illegal. If those people had come back to him and told him there was something wrong, he would have stopped it and fixed it."

Myers: "Much has been made of the fact that in October, even after Enron announced a billion dollars in losses, your husband went on television, and basically reassured everything would be OK and six weeks later the company went bankrupt."

Lay: "My husband tells the truth. He's not a liar. He totally, 100 percent, believed in it. He believed it would be OK."

Myers: "At what point did he realize that he couldn't save that company? That he couldn't turn it around?"

Lay: "He came home one night days — oh, I want to say literally two or three days maybe before everything just fell apart. And then..."

Myers: (whispers) "It's OK."

Lay: (crying) "Ken, he was emotional about it. And it was..."

Lay: "...but he was, he said he just didn't think he

could stop it. Oh. He said he tried everything, everything he could think of, and he couldn't stop it."

Myers: "Was he just devastated?"

Lay: "Devastated. Devastated for his employees. He's the type of leader who used to walk around the floors and talk to his employees. And he knew them and knew their families. And so many of them are our friends, relatives."

Myers: "What do you say to the thousands of employees and investors who trusted your husband, and lost everything, feel betrayed?"

Lay: "We've lost everything. But I don't feel Ken's betrayed me. I'm desperately sad, but I don't know where to place the anger. I don't know who to get mad at. I just know my husband didn't have any involvement."

Just last week her husband stepped down as chairman & CEO of Enron — a post he returned to five months ago — after Enron's then-CEO suddenly quit.

Myers: "Many people will be stunned to learn that your husband, even today, still believes he can bring Enron back."

Lay: "Absolutely. One hundred percent. There are still 19,000 employees. They're making money, Lisa, this is a good company. It hasn't all gone bad."

Myers: "If you could go back and change one thing in this entire episode, what would it be?"

Lay: "Oh (laughs), selfishly? Probably that my husband never went back to Enron."

PROFILES

A network of influence

• Enron board member	• Ex-Commerce Sec'y Ron Brown
• Pentagon official	• Ex-Treasury Sec'y Robert Rubin
• Bush strategist Karl Rove	• Ex-Clinton aide
• GOP chairman	• Ex-Clinton Treasury official
• Commerce Sec'y Don Evans	• Attorney General Ashcroft
• Former President Bush	• Vice President Dick Cheney
• President George W. Bush	• Treasury Sec'y Paul O'Neill
• Bush economic advisor	

Enron chief executive Ken Lay has built a web of allies, lobbyists and friends in Washington for the past two decades. Enron's political action committee and its executives contributed \$113,800 to George W. Bush's 2000 presidential campaign, putting Lay and Enron among Bush's biggest supporters.

Click above on a member of Enron's bipartisan network of influence for details.

Sources: Center for Responsive Politics, Associated Press, Center for Public Integrity
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Ken Lay has golfed with Presidents Clinton and Ford. He's spent time with Thatcher, Mandela,



Today show

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January 29 — Linda Lay, wife of former Enron CEO Ken Lay, speaks with NBC's Lisa Myers in part two of their discussion about how she, her husband and their family are coping with the current business tragedy surrounding Enron.

Gorbachev, and of course, the Bush family. And it's that relationship with the Bush family that has drawn the most scrutiny. Why? The Lays and Enron have been George W. Bush's biggest contributors — \$550,000 over seven years. Now his wife Linda, tries to set the record straight.

Linda Lay: "Well, I can say we're closer to his parents than we are to him. Our friendship started with his parents, who are wonderful people, wonderful friends. And they're a strong, loving, supportive family as well. We know all of the children, know the family, and we are closer to some family members than others."

Lisa Myers: "Are you closer to George W. or to some of his brothers and sisters?"

Lay: "I'm actually closer to some of his brothers and sisters than to George W. But we certainly know George W. and Laura. And I have a, I think, a very good relationship with them."

Myers: "Have you heard from former President Bush and Mrs. Bush during all this?"

Lay: "I have not, but Ken has talked to George Sr."

Myers: "Have they been supportive?"

Lay: "Very supportive. Very loving people. Wonderful people."

Linda Lay is diplomatic about the current president's effort to distance himself from her husband and Enron.

President Bush: (sound on tape) "What I'm outraged about is that share holders and employees didn't know all the facts about Enron."

Lay: "If he believes they didn't know the full story, then that's why he's outraged. But there's so many facts that we don't know, totally don't know."

Myers: "Did it hurt to hear him say that?"

Lay: "Not if he believes it. I know George W. talked about his mother-in-law having lost \$8,000 in her stock. I have a 93-year-old father, and he of course believed in Ken and believed in Enron. His entire retirement is in Enron stock. He's lost the bulk of his wealth."

What about the fact that George W. Bush calls Ken Lay, Kenny Boy? Proof some say of their closeness.

Lay: "That's my nickname for my husband which he overheard."

Myers: "So it wasn't original with the President?"

Lay: "It certainly wasn't. Ken's mother called him Kenny and I called him Kenny Boy."

Lay was born in tiny Tyrone, Missouri, the middle child of Ruth and Omer Lay. His father was a minister. Money was so tight, that one Thanksgiving the family had cold cuts instead of turkey.

Lay put himself through college, graduating Phi Beta Kappa in economics from the University of Missouri. That's where he met his first wife Judie. They're divorced, but even today, with all that's happened at Enron, she supports him.

Judie Lay: "I would describe him as very smart,

"What's important is you spend your whole life working on something, building something, your career, your integrity, your reputation, your character. And then to have other people destroy that? How do you rebuild that? How do you go back and fix that? It doesn't matter how much money you have. You can't buy that."

— LINDA LAY

very honest, good sense of values."

Ken lay married his second wife Linda soon after their divorce. Surprisingly, the ex-wife now often joins them on family vacations, to the delight of their children.

Ken Lay's daughter: "We all spend every holiday together. Even though they went their separate ways at one time, he still holds her in the highest regard."

At least one part of Houston still holds Ken and Linda Lay in high regard: dozens of charities — recipients of \$26 million over six years — from the Lay Family Foundation.

Ed Wulfe: "Linda and Ken Lay have probably been at the front of every major charitable benefit activity in the community."

So much so that the former democratic mayor of Houston urges the thousands who lost jobs — even their life savings — to give Lay a chance.

Bob Lanier: "I hate to see somebody poorly judged without hearing their side. I think he's done a whole lot of good. I think he's a good man."

But such praise won't help the Lays in coping with their financial losses, their fight to avoid personal bankruptcy.

Linda Lay: "We've been poor. And we've been rich. And we were happy when we were poor and we were happy when we were rich. And we're strong, and we're survivors and, as far as that goes, that isn't a problem. That's the least of our problems, Lisa."

Myers: "So losing all that money is not the worst of it?"

Lay: "Oh no, oh no. Yeah, because it's just stuff. What's important is you spend your whole life working on something, building something, your career, your integrity, your reputation, your character. And then to have other people destroy that? How do you rebuild that? How do you go back and fix that? It doesn't matter how much money you have. You can't buy that."

Ken Lay's children agree.

Ken Lay's son: "I don't appreciate the way that his integrity has been in question by people who don't even know him."

Ken Lay's daughter: "He does the right thing. And if the line is here Lisa, he doesn't walk here. He walks way over there."

Ken Lay's son: "There's kind of legal, there's ethical, and then there's where the Ken Lay standard is, and it's beyond ethical."

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But now Ken Lay is fighting for his reputation, and Enron's future. A family minister can see the toll.

Rev. Ed Young: "I've seen him age

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almost over night.
Because he is broken
and in real pain at this
hour, trying to decide
exactly what he can

do.”

Linda Lay: “He’s working as hard as he can to do whatever he can to help Enron and it’s employees survive.”

Lisa Myers: “You say that you always see light at the end of the tunnel.”

Lay: “Always.”

Myers: “Do you see any light at the end of this one?”

Lay: “Absolutely. Absolutely. God is good. Truth wins out. As my husband always says, ‘Good will prevail.’”

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THE WALL STREET JOURNAL. O N L I N E

February 1, 2002

THE RISE AND FALL OF ENRON

Few of Lay Family's Real-Estate Assets Are on the Block, Listing Records Show

By GARY MCWILLIAMS
Staff Reporter of THE WALL STREET JOURNAL

Earlier this week, Linda P. Lay, the wife of former Enron Corp. Chairman Kenneth L. Lay, told a national television audience that nearly everything the couple owns is for sale as they struggle with a personal financial crisis.

But few of the couple's vast real-estate holdings are on the market, according to Multiple Listing Service records.

Altogether, Mr. and Mrs. Lay own real estate valued at more than \$30 million in Texas and Colorado, according to local tax records. They own 18 properties in Houston, Galveston, Texas, and Aspen, Colo., according to real-estate records. But only two of the properties, vacation homes in the resort town of Aspen, are being offered for sale.

On NBC's "Today," Mrs. Lay described the couple's plight in the wake of the Enron bankruptcy as a fight for liquidity because most of their wealth was tied up in Enron stock, now nearly worthless. "Other than the home we live in, everything we own is for sale," she said.

The comments stirred a torrent of criticism in Houston, where about 4,000 Enron employees have seen their jobs and stock holdings evaporate. Belo Corp.'s Houston television station, KHOU, reported that the couple's Houston and Galveston properties didn't show any sign of being for sale.

The family's Houston-based investment office didn't return a call requesting clarification. According to tax and real-estate records, the Lays live in a Houston penthouse valued at \$7.1 million and continue to hold a home near Aspen's riverfront valued at \$4.1 million, as well as property valued at \$2.1 million. Two other homes, valued at more than \$6.1 million each, were listed with an Aspen real-estate firm on Nov. 12, two weeks before Enron filed for bankruptcy. Mr. Lay also sold a third of his stock in **Compaq Computer Corp.** at the end of October, two months before resigning from its board.

However, Mr. Lay has retained significant stock holdings in **Compaq**, **Eli Lilly & Co.** and other companies where he once served as a director. Those shares are currently valued at more than \$10 million.

Still, along with Enron, the Lays have seen some investments sour. Through private partnerships, they are the largest individual investors in a struggling Houston online company that has cut its work force four times in the past year.

The Lays invested between \$18 million and \$20 million out of the more than \$150 million that Questia raised since its inception in 1998, according to people close to the firm.

Questia sells access to online books to college students for \$20 a month. Investors say it has fallen far short of its original goal of recruiting 10% of the 14 million U.S. college students to sign up for its service.

Last month, Questia cut its work force to just 28 employees from 300 a year ago. A spokesman said recently the job cuts would enable the company to continue operations while it seeks new investors. While Mr. Lay has resigned his seats on the boards of Compaq, Eli Lilly and i2 Technologies, he remains on the board of Questia, according to the company.

Write to Gary McWilliams at gary.mcwilliams@wsj.com¹

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Former Enron CEO Kenneth Lay

For Lay, a bright career in twilight

Family, friends say he's baffled at Enron collapse

By Lois Romano
THE WASHINGTON POST

HOUSTON, Feb. 3 — Kenneth L. Lay, the fallen chairman of Enron, still insists on going to his corner office every day on the 50th floor of the glass skyscraper that once stood as a testament to his company's success. But these days he conceals his car in different parking spaces to avoid the media and slips quietly into the building. Some executives don't even know that their former chief is still among them.

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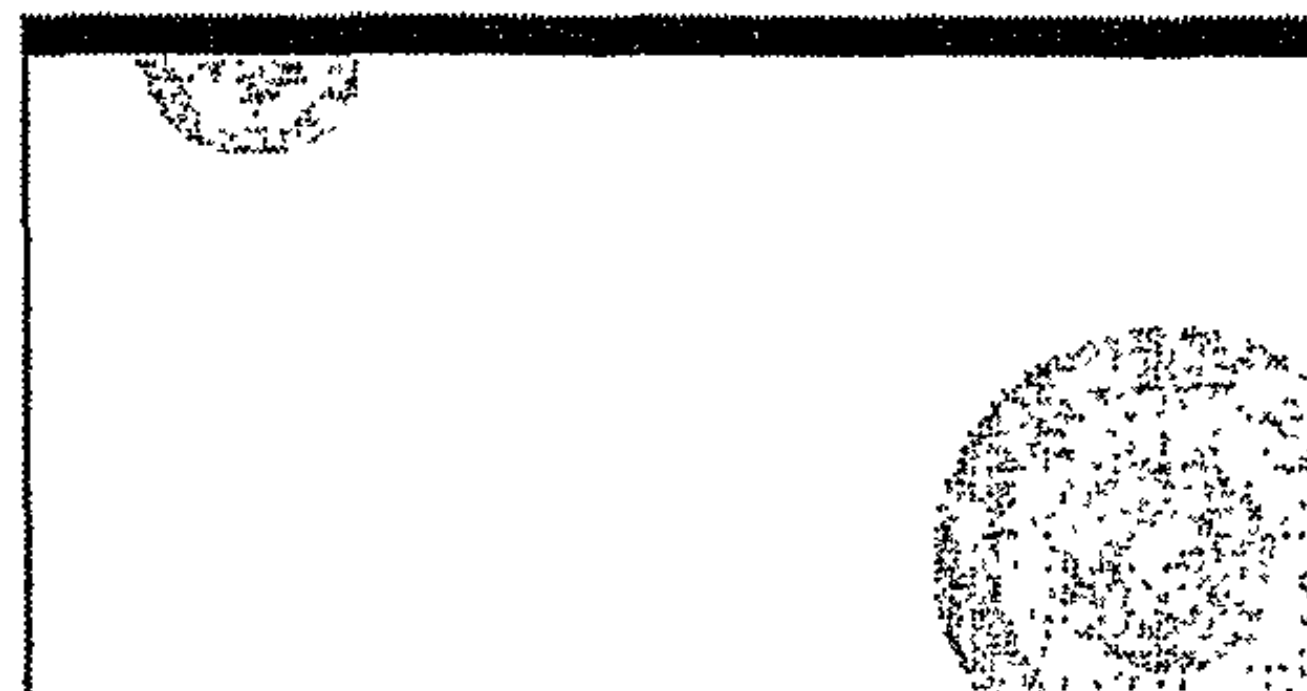
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'He is far less interested in his net worth than in his reputation. It's not about money.'

**— A RELATIVE
CLOSE TO LAY,
WHO ASKED FOR
ANONYMITY**

HE WAS, until so very recently, a beloved player of epic proportions in this rich energy town, both a Ph.D. in economics and an avuncular and approachable go-to guy. Politicians angled to have him host their fundraisers; charities lined up with their hands out; handlers volunteered to pave his path at every turn. Lay, they all say, obliged enthusiastically, his personal foundation handing out millions since its inception in 1994, and the Enron PAC doling out thousands more.

But gone for Lay are the perks of power: the hangers-on, the corporate jets, the bottomless requests for an audience - except from the government authorities that want to grill him.

washingtonpost

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Tomorrow, two months after Enron filed the largest bankruptcy in American history, Lay is scheduled to appear before the Senate Commerce

Committee. It is a potentially high-risk performance, as he faces myriad civil suits and potential criminal liability if it can be proved that he deliberately misled investors and the government about the health of Enron Corp.

As Enron's demise is investigated by the federal government, Lay's future and reputation will hinge on what he knew and when he knew it.

In his testimony before Congress, Lay is expected to maintain that there are many things he did not know about Enron's operations, a claim now supported by a report - commissioned by the Enron board and released yesterday - that bluntly faults him for not paying attention to the management of the company. The report minces no words in stating that Lay bears "ultimate responsibility" for Enron's accounting practices, which hid losses and inflated profits and ultimately sank the company he built.

Against that backdrop, the man who rose from impoverished beginnings in the Ozarks to rub elbows with presidents will try to salvage what is left of his name, balancing allegations of greed and corruption against charges of incompetence.

These days, his family and friends paint a portrait of a man largely alone in his turmoil, forced to resign last month by his company's creditors and baffled at how the nation's largest energy trading firm collapsed around him. Even the president of the United States - once thought to be Lay's friend - has turned on him, expressing outrage that Lay and other executives cashed in hundreds of millions in Enron stock before it plummeted. "I thought the captain was supposed to be the last one off the sinking ship, not the first one," an aide quoted Bush as saying. "This stinks."

Now his daughter, a lawyer, helps with his defense; his wife has taken over media relations; and his son and stepchildren print and copy documents. A devout Methodist, Lay has turned to his faith to get him through the scandal, his family says.

But the public sympathy quotient is low for someone who received more than \$112 million in cash from salary, bonuses and sales of Enron stock in the past three years, and whose family also benefited from doing business with Enron. His wife claims he has lost everything as he sells at least three homes in Aspen, Colo., valued at more than \$15 million - and records show he owns much more.

And how does he explain the fact that he encouraged his employees to have faith in Enron's stock most of last year, while he was selling several thousand shares every trading day of the year through July? Why wasn't he doing more to heed the warnings of two senior executives fearful that Enron was a house of cards by last summer?

This is not how Ken Lay, 59, envisioned the twilight of his career.

'WE HAD NO MONEY'

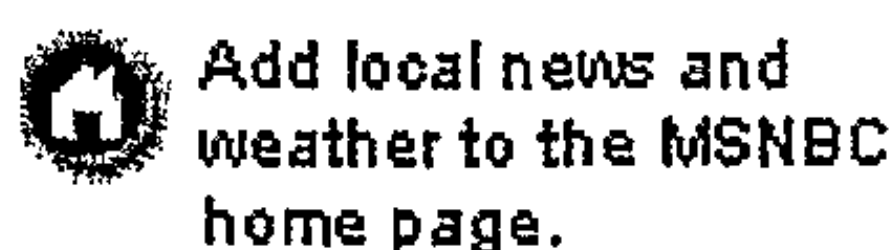
"Ken thrived on the corporate world," said his older sister, Bonnie Bourne. "He liked seeing how well he could operate. He liked the contacts. His lifestyle afforded him opportunities to form those relationships in politics and in business. And I think he truly enjoyed seeing what he could do with what he had, with what he had built."

Kenneth Lee Lay had, in fact, built the tower of his life brick by brick.

Lay spent his childhood in the tiny Missouri town of Rush Hill, the middle child and only son of a Baptist preacher and salesman, and a homemaker. "We had no money, but I don't remember us being so poor that we didn't have food," said Sharon Lay, the younger sister. "We never looked or acted destitute. My mother may have shopped for 39-cents-a-yard fabric, but by God, we had new clothes."

By the time he was 12, Ken Lay was doing his share, driving a tractor, juggling paper routes and painting houses to bring in some extra cash.

Neither parent had gone to college, but they were determined that their kids would. They talked about



politics and public policy at the dinner table and encouraged the kids to become involved. Back then, Ken was a Democrat.

Omer Lay was a relentless optimist, a trait that his son inherited, and one that may have led to his undoing last fall, his sister Bonnie said. "Sometimes we don't see the things we need to see," she said. "When we were young, the car wouldn't be working and we'd say, 'Oh well, it'll work tomorrow.' We all assumed everything would be okay tomorrow. I'm sure he's going through a lot of self-examination right now."

In the late '50s, the Lays moved to Columbia, Mo., so the children could attend the University of Missouri while living at home. Ken Lay put himself through school painting houses and earning some scholarship money. Friends, professors and his first wife, Judy, remember him as a top student, focused and ambitious, in love with economics.

Lay graduated Phi Beta Kappa with honors in 1964 and earned a master's degree a year later at the urging of his mentor, economics professor Pinkney Walker. He headed to Houston to work for Exxon, and in 1966, he married Judy Ayers, who had sat in front of him in French class. He earned his doctorate in economics at the University of Houston while there.

He left Exxon for a brief stint in the Navy during the Vietnam era and then went to work in Washington for Walker, who was then a member of the Federal Power Commission. By the mid-'70s, Lay had returned to the corporate world - where his rise was swift and lucrative.

ASPEN FOR THE HOLIDAYS

Lay moved his family to Florida in 1974 to work for Florida Gas as an executive vice president. Within the decade, his marriage would start to unravel. He and Judy separated in 1981, and in 1982, after the divorce was final, Lay married his secretary, Linda Phillips, who had three children of her own.

In 1984, he made his big leap, to Houston Natural Gas as CEO and chairman, which he merged with the Nebraska-based InterNorth in 1985 to form Enron. It is considered largely Lay's vision that transformed Enron from a stodgy, traditional pipeline company into the nation's largest energy trading firm in the wake of deregulation.

Lay was a wealthy man by his mid-forties, but family members, community leaders and business associates all say he never flaunted it, the way other Texas oilmen did. "He wasn't a stargazer," said Republican political consultant Sue Walden, who has worked for Lay and Enron. "Everyone stargazed at him."

The more millions he made, the more he gave

away - to Houston charities, to politicians, to his alma mater and even to his ex-wife. Judy Lay said that in 1999, Lay initiated an addendum to the settlement - confirmed by divorce filings obtained by The Post - that gave her \$10,000 a month for the next 10 years. "It was strictly his doing," Judy Lay said.

Lay set up his parents in a greenhouse business and flew his whole family to Aspen for the Christmas holidays every year. The holiday entourage included his ex-wife. "He would pay for my ski trip, put me up at a nice hotel, and he certainly didn't care if I was there or not," said Judy Lay. "He did it for the kids, and he did it for me."

Lay's family says he always believed in giving back to the community. But there was another reason he was so keen on giving to Houston: He wanted a city attractive enough to draw the best and brightest to work at Enron.

He helped fund the arts - and rarely turned down a request to lead a major fundraising drive, from the YMCA to the Holocaust

Museum to the new ballpark. "He became the model for business and civic leadership in this community," said Bob Eury, the longtime president of Central Houston Inc., a nonprofit downtown development corporation. "He raised the bar for corporate participation."

He also saw to it that "minorities received a fair share," said Howard Jefferson, president of the local NAACP. When the bond issue for the new stadium - which would be named Enron Field - was being considered, Jefferson said, Lay negotiated a deal to guarantee that 30 percent of the construction and concession contracts would go to minorities.

Starting in the '80s, Lay also set about building his political ties, and he and Enron contributed handsomely on both sides of the aisle. But as a wealthy Texas Republican, Lay predictably gravitated toward the Bush machine, becoming a strong supporter of George H.W. Bush in 1988. Two years later, the Bush team asked him to serve as co-chairman of the host committee for an economic summit in Houston. Later, he was tapped to chair the host committee for the Republican National Convention, a major fundraising job. And in 1999 he became a "Pioneer" for George W. Bush, agreeing to

The Enron Fiasco

A company's rise and fall

- Lay to testify without immunity
- White House told to preserve documents
- Enron slide starts with meeting
- Enron sales by Citigroup draws lawsuit
- Lay gave names for energy panel
- GAO to sue Cheney
- Enron names Stephen Cooper interim CEO
- NBC exclusive: Wife of ex-CEO in eye of storm
- Full coverage

raise \$100,000.

But political operatives and friends of both the senior Bush and George W. Bush portray a symbiotic political relationship and nothing more. "He was a money guy," not a member of the inner circle, said Craig Fuller, a longtime aide to George H.W. Bush.

Still, the new Bush administration turned to Lay for help on energy policy and took two of his recommendations for commissioners on the Federal Energy Regulatory Commission.

But when Lay's company was failing last fall, he frantically called his buddies in the administration - fellow Texan and Commerce Secretary Donald L. Evans, Treasury Secretary Paul H. O'Neill, budget director Mitchell E. Daniels Jr. From them, he got no help.

'EVERYTHING IS FOR SALE'

Few people in Houston would talk about Lay's woes for the record, but many refused to believe that he would deliberately hurt the company. Even among those who are suffering the most - employees who lost jobs and savings - few fault Lay directly, although they don't excuse him. They view him as a remote yet paternal figure, whom they saw less and less over the past few years as he handed the company over to his brash protege, Jeffrey Skilling, as CEO, and CFO Andrew Fastow, both of whom helped create the now-controversial partnerships.

What many have expressed outrage over is Linda Lay's contention on national television last week that the family was on the verge of bankruptcy. "Other than the home we live in," she said, "everything is for sale."

It is impossible to quantify Lay's net worth today with specificity, but certain things are known. Over the last 10 years, for example, his cash compensation from Enron - just his salary, bonuses and other incentive compensation unrelated to stock or stock options - totaled \$37.4 million. Lay sold Enron stock worth \$82.4 million since 1999. Enron's board had granted Lay restricted stock and options to buy millions of additional shares at below-market prices, but it is unclear how many of those shares he cashed in before the company's stock became worthless in the bankruptcy. According to Enron's SEC filings, Lay exercised options to buy \$188 million worth of Enron stock in the past three years, but other SEC records compiled by Thomson Financial/First Call record Lay's actual stock sales at \$82.4 million.

The home the Lays live in, a luxury penthouse, is valued at \$7 million. Two homes and a lot in Aspen are listed for sale for more than \$15 million. A family source said the Lays have also accepted a private contract on yet a third home, their personal Aspen residence, which they had intended to keep. The

couple also own a home in Galveston, Tex., which one family member says will also be put up for sale. The couple also own at least 10 more properties in Texas, the status of which is unknown. In addition, Lay has reportedly retained some of his holdings in Compaq, Eli Lilly and other entities, which could be worth as much as \$10 million.

Now come new revelations that other family members - Lay's son, Mark, 33, and his sister Sharon - also profited handsomely from dealings with Enron. An Enron proxy statement shows that the energy firm in 1997 acquired a paper company co-owned by Mark Lay, giving the chairman's son a three-year, \$850,000 employment contract, plus an option to buy 20,000 shares of stock. According to the New York Times, which first reported the story, Mark Lay also owned or worked for three other companies that did business with Enron.

In addition, a Houston travel agency co-owned by Sharon Lay - Alliance Worldwide - had done more than \$10 million in business with Enron, accounting for over half the firm's revenue. Mark Lay, who is studying at a Houston Baptist seminary, did not respond to phone messages. Sharon Lay, who could not be reached at her office yesterday, told the Times that she won the contract through competitive bidding. Ken Lay's lawyer, Earl Silbert, did not return a call for comment.

Meanwhile, Ken Lay - who remains on Enron's board - spent the weekend closeted with lawyers and family preparing for his testimony tomorrow.

Lay - who turns 60 in April - told family and friends he had hoped to retire a few years ago, and many believed he had mentally moved on in search of a new challenge - perhaps in public service. It was thought he might snare a Cabinet post in 1992 if the senior Bush had been reelected. And when George W. Bush was elected president, rumors circulated that Lay hoped to become treasury secretary. In recent months, he didn't discourage talk that he might run for mayor of Houston.

By February of last year, he stepped down as CEO, replaced by Skilling. Lay remained chairman of the board. Enron records show that Lay most certainly knew about and approved the partnerships, but it is less clear how much he was involved in the oversight of them - which as chairman he should have been.

Whatever the facts ultimately show, it is not likely that Ken Lay will ever enjoy the same status he had in Houston and on the national stage.

"He has been a very good civic citizen, and he has amassed a reservoir of goodwill," said Richard Murray, director of the University of Houston's Center for Public Policy. "But it's a no-brainer that he's finished in public service."

Said a relative close to Lay, who asked for anonymity: "He is far less interested in his net worth

than in his reputation. It's not about money. He could go out and start another company and make money again. But his reputation is so damaged, and that's what hurts."

Staff writer Peter Behr and researchers Lynn Davis, Richard S. Drezen and Lucy Shackelford contributed to this report.

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B U S I N E S S

IGNORANT & POOR?

His family says Ken Lay was misled about Enron and now is broke. Why Congress isn't likely to buy it

By DANIEL EISENBERG

WHEN KEN LAY SHOWS UP THIS week to testify before Congress, the disgraced former chairman of Enron should know how to handle a hostile crowd. Even his current employees, after all, are calling for his head. Just a few weeks ago, Enron employees tell TIME, the Houston-based energy-trading company brought in an outside consulting firm to conduct a series of focus groups with some of the remaining workers on how to reinvigorate the sagging firm. One of the first steps, six out of eight people indicated in one session, should be to get rid of Lay.

Before the company officially went bankrupt, Lay, who had earned admiration for his unpolished, affable manner, had lost his loyal fan base. In late October—a day after Enron acknowledged that the SEC had

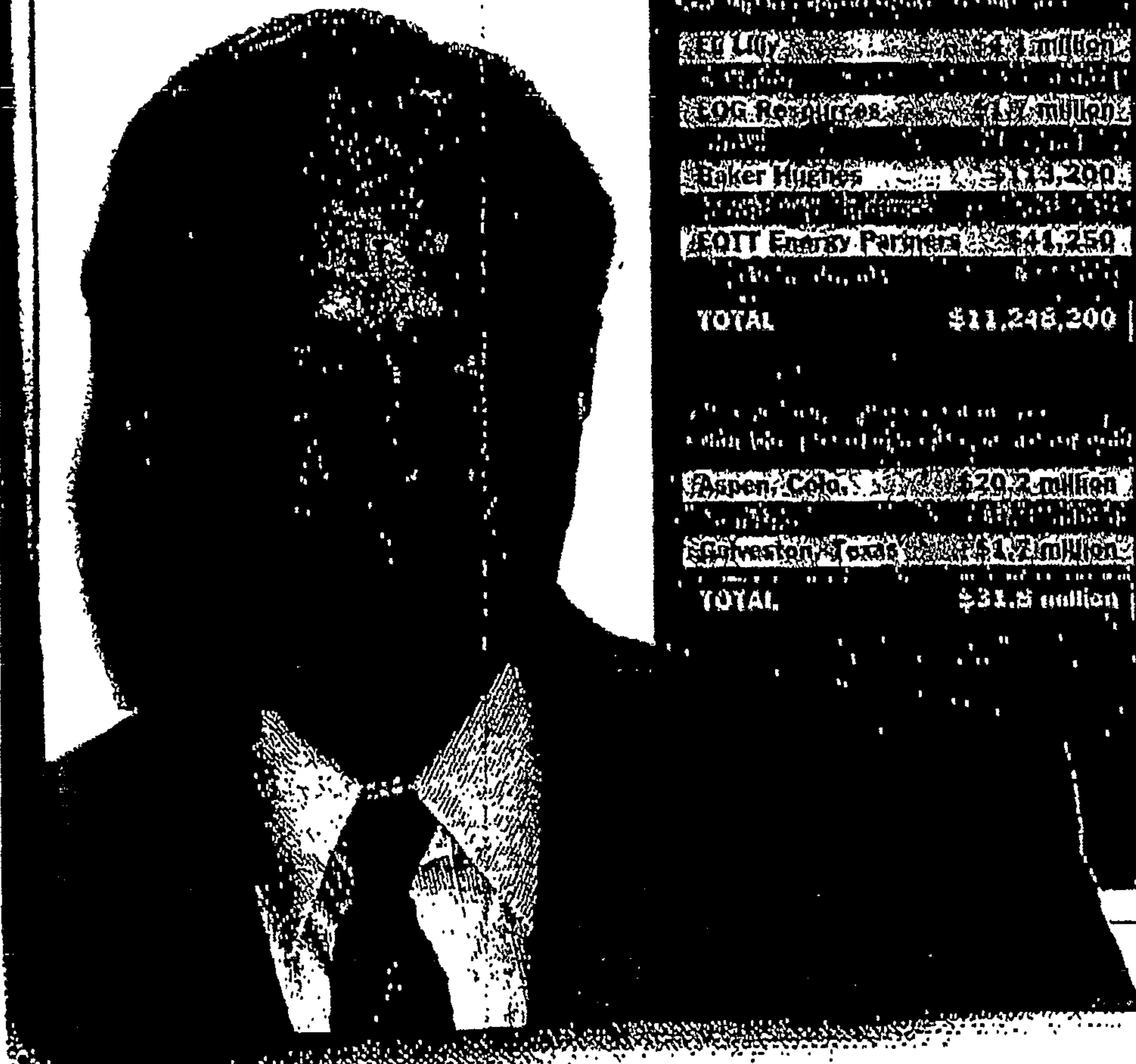
opened an investigation of its accounting practices—Lay tried his best to raise the spirits of his downtrodden workforce. At a company gathering caught on videotape, the son of a Missouri minister promised that there wouldn't be any layoffs and that Enron would rise again. For once, though, the rank and file weren't drinking Ken's Kool-Aid. As one disgruntled worker put it, in a statement that Lay chose to read aloud: "I would like to know if you are on crack. If so, that would explain a lot."

Not enough, surely, to satisfy members of Congress. An army of legislators, lawyers and federal agents is bearing down on Lay with the threat of both civil and criminal charges. They all want to know why he seemed to be routing Enron stock and simultaneously selling his own shares—while knowing that the firm he had turned from a staid pipeline operator into an innovative energy-trading giant was imploding. Investigators for plaintiff lawyers tell TIME they are looking into allegations that investment bankers helped top executives like Lay and former CEO Jeffrey Skilling (who is also supposed to pay a visit to Capitol Hill this week) put so-called collars on their stock options so they would not lose money, no matter how low the stock sank.

PHOTO BY AP/WIDEWORLD

Enron	\$11.248,200
EOG Resources	\$1.7 million
Baker Hughes	\$1.3,200
EOIT Energy Partners	\$41,250
TOTAL	\$11,248,200
Aspen, Colo.	\$20.2 million
Sevenson, Texas	\$1.7 million
TOTAL	\$21.9 million

Skilling's abrupt departure will raise suspicions of Enron has been very aggressive in its accounting - Condor vehicle. We do have valuation issues with the EPC MTM positions.



B U S I N E S S

LAYS SAYS ENRON HAD A SWEET DEAL TOO

Ken Lay, Enron's chairman and chief executive officer, says the company's collapse was a "sweet deal" for him and his family.

Lay, 61, says he and his family were "lucky" to get out of the company with a "sweet deal" of \$200 million in compensation.

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Lay's dubious defense strategy was foreshadowed by his wife Linda in an ill-conceived appearance last week on NBC's *Today* show. She claimed that her husband was hoodwinked by nefarious underlings and that the proof of his innocence is that he and his family are now near bankruptcy. "If those people had come back to him and told him there was anything wrong, he would have stopped it and fixed it," Linda Lay declared. "There's nothing left. Everything we had mostly was in Enron stock."

When he appears before the Senate Commerce Committee, Lay is expected to argue, as his wife did, that he relied on the counsel of legal and financial experts, who told him there was nothing illicit or unethical about hiding billions of dollars of Enron's debts in off-balance sheet partnerships that ended up inflating the company's reported

earnings. To prove his point—and show how much he believed in the company until the bitter end—the man who has collected some \$200 million in compensation over the past three years will try to explain how he is now flat broke. An internal Enron probe released Saturday night blamed the company's demise on a wide range of executives and auditors but went easy on Lay.

But the lawmakers and staff members preparing questions for Lay wonder how he is going to explain away all the evidence to the contrary. Lay's claim of ignorance is "as implausible as imagining that Richard Nixon did not know what was being done by his staff at Watergate," says David Beim, a professor of economics and finance at Columbia University Business School.

Lay knew all along about the possible ethical conflicts posed by the involvement

of Enron chief financial officer Andrew Fastow in off-the-books partnerships with shell corporations, according to a confidential study conducted at Lay's request by the Houston law firm Vinson & Elkins. On Nov. 5, 1997, as first reported by the *Wall Street Journal*, the executive committee of Enron's board voted to provide hundreds of millions of dollars in loan guarantees to a partnership known as Chewco. Then, in June and November of 1999, the board waived the company's ethics code to allow Fastow to serve as general partner of two additional partnerships, both supposedly independent of Enron.

It's hard to imagine how the mounting evidence of trouble could have escaped Lay's attention by last summer. Vice chairman Clifford Baxter—who committed suicide late last month—resigned in May after voicing concerns about accounting practices to Lay's top deputy, Jeffrey Skilling. The whistle-blowing memo by Enron vice president Sherron Watkins was sent to Lay on Aug. 15. Another warning memo, from employee Margaret Ceconi, made its way to Lay soon after. Nonetheless, Lay in September was telling employees to buy more stock and bet on Enron's future.

It was an open secret at Enron that the company was all but a "house of cards that will fall," as a Texas energy executive attending an industry conference in Vail, Colo., a year ago groused to a senior Enron v.p. His dinner companion's startling reply: "You're more right than you know." Even people who believe that Lay was not involved in the dubious dealings of Skilling, Fastow and chief accounting officer Richard Causey concede that Lay had laid the foundation by encouraging Enron's ruthless, winner-take-all culture. A band of cocky, inexperienced young M.B.A.s was left alone to do whatever it took to structure a deal, regardless of the consequences. "Pushing the limits was what you were told to do, and you were given the resources to do it," says an Enron manager.

The Lays' claim that they are nearly as bankrupt as Enron is not winning them much trust or sympathy in Houston—or in Washington. Ken Lay now holds close to 3 million essentially worthless Enron shares, but he got most of his money by selling Enron stock early, reaping more than \$100 million over the past three years. During that same period, he received salary and cash bonuses of more than \$17 million. Last year alone he unloaded

"I would like to know if you are on crack."

—ENRON EMPLOYEE, to Kenneth Lay during an October question-and-answer session

When Two's a Crowd

Does Viacom's founder have a problem letting go?
Or is the heir apparent just too aggressive?

EVERY SOCIALITE AND CEO IN MANHATTAN knows not to invite Sumner Redstone and Mel Karmazin to the same party. So when the twin egos of media giant Viacom unexpectedly shared the stage during a dinner for investors last Thursday, they generated quite a buzz. Some who have bet heavily on the success of Viacom—whose properties include CBS, MTV and Paramount studios—took heart that the feuding titans made a public show of getting along. "Their message was simple," Bear Stearns stock analyst Raymond Katz wrote in a report on Friday. "Their partnership, built on a mutuality of self-interest and a similar business philosophy, is functioning well." Katz, whose firm hosted the dinner, said the two looked "relaxed and comfortable." Redstone and Karmazin wrote in a lovey-dovey joint statement that they are "looking forward to working together productively in the ensuing years."

But officials close to the two men whispered a different story. According to the *New York Times*, Redstone, 78, the CEO and chairman, told the company's board at a special meeting on Wednesday that he would not renew the contract of Karmazin, 57, Viacom's president and chief operating officer. Redstone, who owns 68% of Viacom's voting stock, generally gets what he wants. But Karmazin's contract runs through 2003, and he has been widely regarded as Redstone's successor.

Therein lies the problem. Redstone is famous for oust-

ing or outlasting would-be successors, including former Coca-Cola Television and HBO executive Frank Biondi. Redstone and Karmazin don't appear to disagree on any substantive matter; rather, Redstone told the board he dislikes Karmazin's aggressive style. And associates say they have seen the older man bristle at the attention Karmazin gets. "These are two strong-willed individuals," says Mark Greenberg, who manages the Invesco Leisure Fund. "Neither wants to concede to the other."

At last Wednesday's board meeting, Viacom directors instructed the two to resolve their differences. Viacom issued a statement on Karmazin's contract, saying that "Mr. Redstone and Mr. Karmazin do not plan to address the issue any sooner than the end of 2002."

Ousting Karmazin anytime soon would be no easy task. It would take 14 of 18 board votes; eight members come from CBS and are regarded as loyal to Karmazin. He also has won fans on Wall Street by boosting earnings at CBS and earlier at Infinity Broadcasting. "If Mel leaves, the shares will take a hit," says stock

analyst Peter Mirsky of SG Cowen. So Redstone, with \$10 billion tied up in Viacom stock, might not want to shake this tree too hard.

—By Daniel Kadlec.
With reporting by
Daren Fonde/New
York

HAPPIER TIMES Linda Lay beamed at social events like this 2000 Houston museum fête

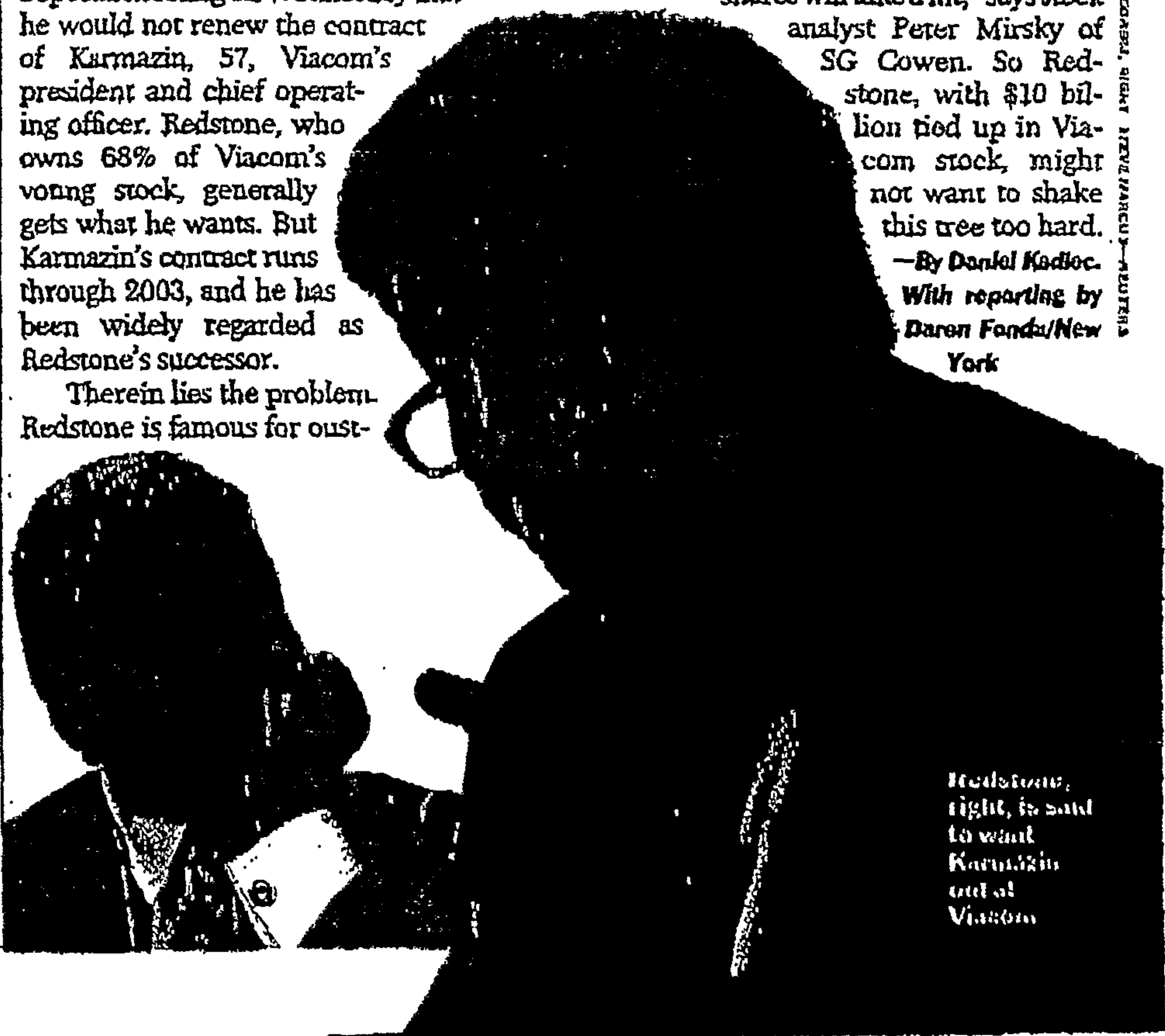
\$25.7 million in Enron stock between January and mid-July as the share price fell from \$80 to less than \$50. And at the end of 2001, according to public records, he owned stock that today is worth more than \$11 million in companies for which he was either an officer or director, including Compaq, Eli Lilly and a bevy of start-ups.

The Lays own at least 20 properties in Colorado and Texas. These include their principal home—a five-bedroom high-rise condo in Houston that's worth at least \$8 million—as well as rental properties from Houston to Galveston that are worth an additional \$4.5 million. The Lays are selling all their Aspen, Colo., properties, including a 4,537-sq.-ft. log cabin and a four-bedroom riverfront house, together worth about \$20 million.

What's unclear is how much debt the Lays have. Lay and his lawyers declined to discuss that issue or answer other questions put to them by *TIME*. Last year Lay sold millions of dollars of Enron stock back to the company to repay some loans. It was not illegal, but it's a maneuver that makes it harder to track insider selling; instead of disposing of stock on the open market and having to declare it publicly soon afterward, Lay did not have to report it until 45 days after the end of the fiscal year.

It was just that penchant for secrecy that got Enron in trouble in the first place. But as FBI agents and 10 congressional committees and subcommittees probe the scandal, it's only a matter of time before someone breaks the code. And when they do, Ken Lay may well have to deal with an even less sympathetic audience.

—Reported by Bernard Baumohl and Eric Roston/*New York* and Cathy Booth Thomas and Lyell Thottam/*Houston*



Redstone, right, is said to want Karmazin out of Viacom